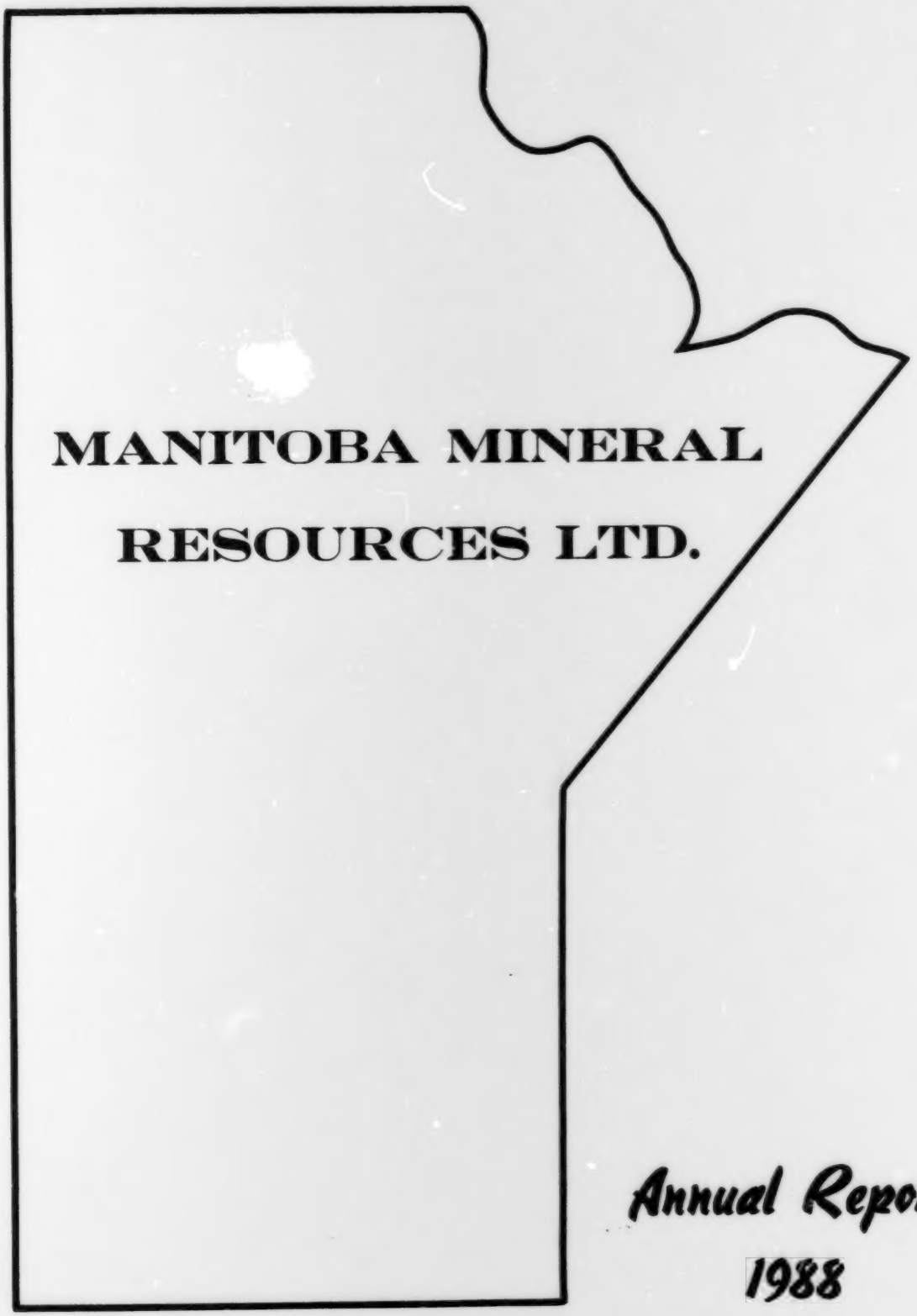


MANITOBA MINERAL RESOURCES LTD.

Annual Report

1988

90-00339/

MANITOBA MINERAL RESOURCES LTD.

Board of Directors

P. R. BROCKINGTON
Senior Development Officer
Department of Industry, Trade and Tourism
Chairperson, Manitoba Mineral Resources Ltd.

H. A. LAINE
Retired Mining Executive

C. T. WILLIAMS
Consulting Mining Engineer

H. D. B. WILSON
Consulting Geologist

Officers

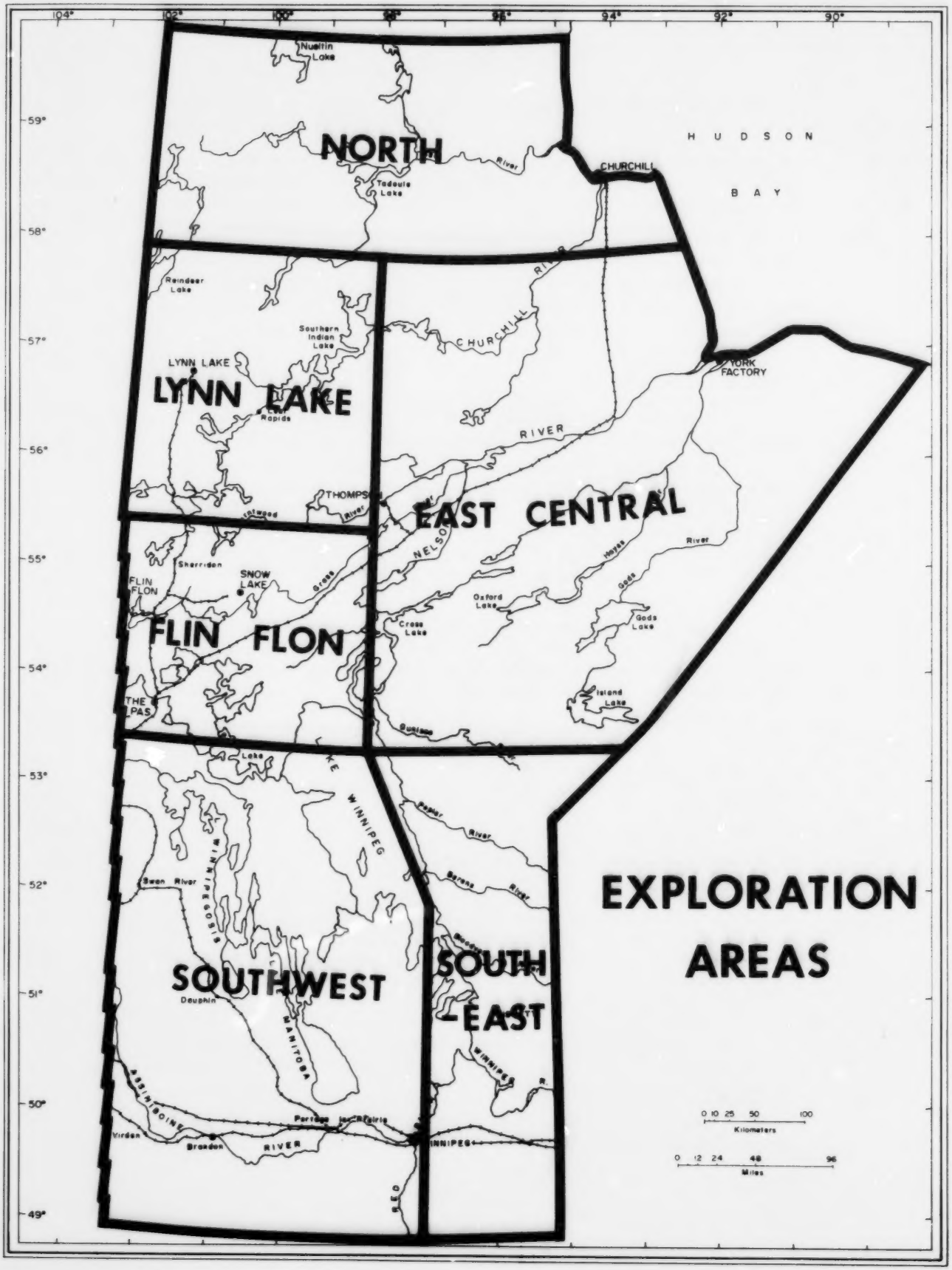
C. MALCOLM WRIGHT
President

D. NEIL BRIGGS
Vice President

C. VICKERS
Secretary

Head Office

603 - 491 PORTAGE AVENUE, WINNIPEG, MANITOBA R3B 2E4


EXPLORATION AREAS
NORTH
LYNN LAKE
EAST CENTRAL
FLIN FLON
SOUTHWEST
SOUTH EAST
HUDSON BAY
CHURCHILL
YORK FACTORY
Nueltin Lake
Tadoule Lake
Reindeer Lake
Southern Indian Lake
Rapids
Sherridon
SNOW LAKE
FLIN FLON
THE PAS
Oxford Lake
Cross Lake
Gods Lake
Island Lake
Swan River
Dauphin
Virden
Brandon
Portage la Prairie
WINNIPEG
RIVER
MANITOBA
0 10 25 50 100
Kilometers
0 12 24 48 96
Miles

To the Honourable Harold J. Neufeld
Minister of Energy and Mines
Legislative Building
Winnipeg, Manitoba
R3C 0V8

SIR:

In accordance with the Manitoba Natural Resources Development Act, the Board of Directors herewith submits the Company's Annual Report for the year ended December 31, 1988.

FINANCIAL RESULTS

Net income rose to a record level of $4.6 million which compares with the previous high of $3.9 million reported for 1987.

Improved earnings resulted mainly from an increase in revenue from the sale of concentrates. Concentrate revenue amounted to $16.2 million compared with $12.3 million in the previous year. Improved concentrate revenue mainly reflects the high prices received for copper and zinc. In Canadian currency, realized copper and zinc prices averaged $1.44 per pound and $0.70 per pound respectively compared with $1.11 per pound and $0.51 per pound in 1987.

Exploration expenditures were also at a record level of $4.0 million, an increase of $1.6 million over 1987. The increase in exploration expenditures was caused by the work required to reach a decision on the possible development of the Farley Lake gold deposit near Lynn Lake.

Capital expenditures totalled $11.1 million compared with $2.3 million in 1987. Development of the Callinan mine in the Flin Flon area under a joint venture agreement with Hudson Bay Mining and Smelting Co., Limited accounted for $7.5 million of the capital expenditures. Subsequently, Manitoba Mineral (MMR) sold its rights under the joint venture agreement to Hudson Bay subject to a satisfactory advance ruling from Revenue Canada. The Company acquired the Province's interest in Tantalum Mining Corporation of Canada Limited for $1.8 million. The balance of the capital expenditures relate almost entirely to the Trout Lake mine. Funds for Callinan development and the acquisition of the Province's interest in Tantalum Mining Corporation were raised by issuance of shares to the Province; the balance of capital expenditures were financed from cash generated from operations.

TROUT LAKE

The Company's share of ore produced from the Trout Lake mine was at a record level of 208,500 tons grading 2.16% copper, 4.57% zinc, 0.046 oz/ton gold and 0.45 oz/ton silver.

Cash operating costs rose to $36.54 per ton compared with $29.22 per ton in 1987. Increased unit operating costs reflect higher wages and a

metal price bonus paid to employees and increased repair and maintenance costs.

New ore found by underground exploration exceeded the amount of ore mined increasing the Company's share of proven reserves to 1.38 million tons at the end of the year from 1.18 million tons at the beginning of the year.

The Trout Lake shaft reached its targeted depth of 660 meters. Development work to link the shaft with the ore zones is scheduled to be completed by the second quarter of 1990 by which time the total project is expected to have cost $25.6 million (MMR share $6.9 million).

CALLINAN

At the beginning of the year the Company entered into a joint venture agreement with Hudson Bay Mining and Smelting Co., Limited to develop the Callinan mine near Flin Flon. The agreement gave the Company the right to earn a 49% interest in the joint venture by contributing the first $9.648 million of development expenditures. By the end of October the Company had contributed $7.517 million. Hudson Bay has agreed to purchase the Company's rights under the joint venture agreement for $7.517 million subject to a favourable tax ruling. The purchase price is payable under a loan agreement containing a schedule of payments retiring the loan by the end of 1990.

TANTALUM MINING CORPORATION

The Company purchased the Province's interest in Tantalum Mining Corporation of Canada Limited (Tanco) consisting of 25% of Tanco's issued shares and a shareholder's loan in the amount of $1,071,958 on the date of purchase. The purchase consolidated the administration of the Province's interest.

Tanco produces tantalum concentrates, ceramic grade spodumene and cesium ore.

Production of tantalum concentrates, which had been suspended since 1982 due to poor markets, was resumed at the end of 1988 following a major refurbishment of the plant financed by a bank loan. The bank loan is repayable prior to any distributions to shareholders. Current projections indicate repayments on shareholder's loans commencing in 1990.

Tanco reported a loss in 1988 as a result of startup problems associated with resumption of tantalum concentrate production. These problems are now being overcome, and Tanco expects to return to profitability in 1989.

EXPLORATION

Exploration was conducted on 51 projects. The private sector participated in 39 of the projects; the other 12 were carried by the Company for its own account. Total project expenditures, including contributions from the

private sector, were $7.6 million of which the Company contributed $4.0 million (53%).

Exploration was largely focussed on the Farley Lake gold deposit 24 miles east of Lynn Lake where Manitoba Mineral (55.2%) and Mingold Resources Inc. (44.8%) jointly spent $5.6 million on work required for a final feasibility study. The study is nearly complete, and a decision on the possible development of the property is expected by mid year.

PERSONNEL

At year end the full-time staff numbered thirteen. The Board wishes to thank the members of the staff for their individual contributions to the activities and results summarized in this report.

On behalf of the Board of Directors,

PAUL R. BROCKINGTON,
Chairperson of the Board.

March 22, 1989

Mining Operations — Trout Lake

The Trout Lake mine, four miles northeast of Flin Flon, is a joint venture owned by Hudson Bay Mining and Smelting Co., Limited (44.0%), Manitoba Mineral Resources Ltd. (27.0%), Granges Exploration Ltd. (19.8%) and Outokumpu Mines Ltd. (9.2%). Hudson Bay operates the mine and, under a contract covering the life of the mine, mills the partners' share of ore produced. Copper and zinc concentrates are sold to Hudson Bay under a contract expiring in 1997. Data tabulated below show Manitoba Mineral's 27% share of production and ore reserves.

ORE PRODUCTION

	Tons	Copper %	Zinc %	Gold oz/ton	Silver oz/ton
1988	208,497	2.16	4.57	0.046	0.45
1987	196,951	1.86	5.55	0.057	0.49

PAYABLE METALS PRODUCED

	Copper lbs.	Zinc lbs.	Gold ozs.	Silver ozs.
1988	7,646,800	12,334,425	6,872	54,130
1987	6,070,702	14,923,072	6,482	52,154

PROVEN RESERVES

	Tons	Copper %	Zinc %	Gold oz/ton	Silver oz/ton
December 31, 1988	1,378,200	2.24	5.4	0.049	0.34
December 31, 1987	1,180,100	2.25	5.9	0.047	0.39

Record production was achieved as a result of a full year's utilization of the larger haulage equipment purchased in 1987 and a full year of operating on a seven-day work week. Cash operating costs comprising mining and milling were $36.54 per ton compared with $29.22 per ton in 1987. The large increase in unit operating costs reflects higher rates in new union contracts, substantial bonus payments to employees related to high copper and zinc prices, and increased repair and maintenance costs. Increased repair and maintenance costs are related to the aging of equipment and the heavier demands placed on mobile equipment as mining proceeds to greater depths.

Payable copper was 1.6 million pounds greater than in 1987 due to the increased production and higher grade of ore. Payable zinc was 2.6 million pounds less than in 1987 as a result of the lower zinc grade. Payable gold was 390 ounces greater than in 1987 and reflects improved gold recoveries resulting from the installation of a flash flotation cell in the mill.

Underground exploration continued to be successful. Despite the mining of 208,497 tons of ore in 1988, proven ore reserves at year end increased by 198,100 tons. Most of the increase results from the discovery of two new ore zones which are still open at depth. Proven reserves are adequate for 6.4 years at current mining rates. The prospect of increasing the indicated life by further underground exploration is excellent.

All ore is presently trucked up spiralling ramps to a crusher station near the surface. As mining progresses to deeper levels haulage distances increase and the system eventually becomes prohibitively expensive. A shaft was started in 1987 and has now reached its targeted depth of 660 meters. Development work to provide access to the ore via the shaft is expected to be completed in the second quarter of 1990 by which time the total project is estimated to have cost $25.6 million (MMR share $6.9 million).

Exploration Operations

The Company starts exploration projects that are wholly-owned in the early stages with the expectation that they will attract private sector participation. Conversely, the Company participates in worthwhile projects proposed by the private sector.

Exploration activities in the year covered 51 projects with total expenditures of $7,556,914. The Company contributed $3,969,596 (53%) — the balance, amounting to $3,587,318, was supplied by the private sector.

Direct project expenditures by the Company and its joint venturers are summarized below.

No. of Projects	Type	Expenditures by MMR	Expenditures by others	Total Expenditures
12	Wholly Owned	$ 214,934	—	$ 214,934
9	Joint Ventures managed by MMR	945,760	$ 966,036	1,911,796
30	Joint Ventures managed by others	2,808,902	2,621,282	5,430,184
51		$3,969,596	$3,587,318	$7,556,914

FARLEY LAKE

During the year an agreement was made whereby Mingold Resources Inc. replaced Manitoba Mineral as operator of the area around the known mineralization. Ownership interests were unchanged with Manitoba Mineral holding 55.2% and Mingold 44.8%.

Work to produce a full feasibility study continued throughout the year and a total of $5.6 million ($1.3 million with Manitoba Mineral as operator and $4.3 million with Mingold as operator) was spent.

As operator Manitoba Mineral undertook diamond drilling to better define the known gold deposits and search for new deposits. Manitoba Mineral also conducted condemnation drilling of the area to be covered by the proposed plant site and completed geotechnical studies.

Mingold was responsible for: the construction of a 15-kilometer access road and bridge; the construction of dams and diversion ditches around the proposed open pits; and the mining of an 11,000 ton bulk sample from a test pit. Mingold is also supervising the preparation of a full feasibility study by Kilborn Manitoba Limited. This study, expected to be completed shortly, will form the basis for a decision on the economic viability of the project.

AREAS EXPLORED AND METALS SOUGHT

For ease of reference the province is divided into a number of exploration areas (see map at front). A summary of Manitoba Mineral's expenditures by area is given in the following table:

Area	No. of Projects	MMR Expenditures	Expenditures % of Total
Lynn Lake	27	$3,271,797	82.4
Flin Flon	21	671,334	16.9
Southeast	3	26,465	0.7
	51	$3,969,596	100.0

NEW AGREEMENTS

Manitoba Mineral holds a 26.6% interest in certain claims in the Elbow Lake area near Flin Flon. An agreement was made to option these claims to Homestake Mineral Development Company.

An agreement was negotiated with Mingold Resources Inc. appointing Mingold as operator for a defined area around the known gold deposits at Farley Lake.

Manitoba Mineral holds a 17% interest in the Don Jon Explored Area Lease near Flin Flon. An agreement was made to option this property to Minnova Inc.

MANITOBA MINERAL RESOURCES LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manitoba Mineral Resources Ltd. as at December 31, 1988 and the statement of operations and retained earnings and the statement of changes in cash resources for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Manitoba Mineral Resources Ltd. as at December 31, 1988 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for exploration expenses when a mine is brought into production as explained in note 4 to the financial statements, on a basis consistent with that of the preceding year.

F. H. JACKSON, C.A.,
Provincial Auditor.

February 17, 1989,
Winnipeg, Manitoba.

MANITOBA MINERAL RESOURCES LTD.

BALANCE SHEET

as at December 31, 1988

(with comparative figures at December 31, 1987)

ASSETS

	1988	1987
Current assets:		
Cash — in bank	$ 43,895	$ 478,543
— in trust with the Minister of Finance	6,985,000	3,195,000
Settlements and accounts receivable [Notes 3(b) and 7]	2,579,957	2,924,704
Accrued interest receivable	350,671	59,903
Prepaid expenses	460,257	3,999
Total current assets	10,419,780	6,662,149
Term loan (Note 8)	7,516,820	—
Investment (Note 9)	1,840,154	—
Fixed assets, net [Notes 3(c) and 10]	4,845,520	3,406,618
	$24,622,274	$10,068,767

Approved on behalf of the Board:

P. R. BROCKINGTON, *Director*

H. A. LAINE, *Director*

LIABILITIES

	1988	1987
Current liabilities:		
Accounts payable	$ 438,259	$ 400,097
Total current liabilities	438,259	400,097

SHAREHOLDER'S EQUITY

Capital stock (Notes 1 and 5):		
Authorized — unlimited number of shares without par value for unlimited consideration		
Issued and fully paid —		
5 shares at $1.00 each	5	5
1,733,900 shares at $10.00 each	17,339,000	7,400,000
	17,339,005	7,400,005
Retained earnings, Exhibit B	6,845,010	2,268,665
Total shareholder's equity	24,184,015	9,668,670
	$24,622,274	$10,068,767

Exhibit B

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the year ended December 31, 1988

(with comparative figures for the year ended December 31, 1987)

OPERATIONS

	1988	1987
Income:		
Sale of concentrates	$16,204,722	$12,326,636
Interest	692,765	185,648
Management fees	146,087	124,258
Other	38,938	31,075
	17,082,512	12,667,617
Expenses:		
Administration	505,862	335,717
Depreciation and amortization	295,764	237,825
Exploration		
Wholly owned ventures	214,934	304,370
Joint ventures, (Note 11)	3,754,662	2,045,955
Taxes	99,137	33,145
Trout Lake mine	7,635,808	5,771,593
	12,506,167	8,728,605
Net income	$ 4,576,345	$ 3,939,012

RETAINED EARNINGS

Retained earnings (deficit), beginning of year		
As previously reported	$ 2,415,301	$(1,495,616)
Change in accounting policy (Note 4)	(146,636)	(174,731)
As restated	2,268,665	(1,670,347)
Net income	4,576,345	3,939,012
Retained earnings, end of year (Exhibit A)	$ 6,845,010	$ 2,268,665

Exhibit C

MANITOBA MINERAL RESOURCES LTD.

STATEMENT OF CHANGES IN CASH RESOURCES

For the year ended December 31, 1988

(with comparative figures for the year ended December 31, 1987)

	1988	1987
Cash provided by (used for):		
Operating activities:		
Net income	$4,576,345	$3,939,012
Items not involving cash		
Depreciation and amortization	295,763	237,825
	4,872,108	4,176,837
Net change in noncash working capital balances	(364,117)	(1,357,029)
	4,507,991	2,819,808
Financing activities:		
Shares issued	9,939,000	—
Financial resources generated from operating and financing activities	14,446,991	2,819,808
Investments:		
Term loan	(7,516,820)	—
Investment	(1,840,154)	—
Fixed asset additions	(1,734,665)	(2,289,150)
	(11,091,639)	(2,289,150)
Increase in cash and equivalents	3,355,352	530,658
Cash and equivalents, beginning of year	3,673,543	3,142,885
Cash and equivalents, end of year	$7,028,895	$3,673,543

MANITOBA MINERAL RESOURCES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1988

1. *Status of the Company*

Manitoba Mineral Resources Ltd. is a Crown corporation established under The Manitoba Natural Resources Development Act and incorporated under The Manitoba Corporations Act. The issued shares are held by the Government of the Province of Manitoba except for five shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba. The Company is authorized to issue an unlimited number of common shares for an unlimited maximum consideration.

2. *Nature of the Operations*

The Company undertakes exploration for minerals in the Province of Manitoba through wholly owned ventures and joint ventures. These joint ventures are operated by either the Company or the joint venturers.

The Company also maintains an interest in the development, mining and processing of ore from the Trout Lake mine and the sale of concentrates. This activity is further explained in Note 6.

The Company manages and administers the interest of the Province of Manitoba in the Ruttan mine operation for a fee.

3. *Significant Accounting Policies*

(a) Accounting basis
The financial statements have been prepared in accordance with generally accepted accounting principles.

(b) Settlements receivable
The Company has contracts with Hudson Bay Mining and Smelting Co., Limited for the sale of the Company's concentrates. Under the terms of the contracts, the concentrates are deemed to be sold at the time of delivery of ore to the mill. The settlements receivable on sales of concentrates are recorded at the estimated net realizable value.

(c) Fixed assets and depreciation and amortization
(i) Field and office equipment and vehicles are recorded at cost and are depreciated at various rates from 20% to 30% on a straight-line basis.

(ii) Exploration costs are charged to expense as incurred. The development costs associated with bringing a property into an operating mine status are capitalized as are expenditures on mine equipment.

3. (c) (ii) continued

The net book value and the estimated reserves at the beginning of the year are the bases used in amortizing these assets by the unit-of-production method.

(d) Investment

This is a long term investment and the cost method is the basis of accounting.

4. Accounting Policy Change

In 1988 the Company changed its accounting policy for exploration expenses so that these will no longer be capitalized when a mine is brought into production. The unamortized balance of exploration expenses of the Trout Lake mine have been written off, retroactively. The effect is to increase the deficit at January 1, 1987 by $174,731, and to decrease retained earnings at January 1, 1988 by $146,636. This change also increased net income for 1988 by $25,482 (1987 - $28,095).

5. Capital Authority

The Government of the Province of Manitoba has authorized the following amounts for funding the Company's activities:

Authority	Amount Authorized	Amount Used to Purchase Shares
The Loan Act, 1982	$2,800,000	$2,800,000
The Loan Act, 1983(2)	5,600,000	5,600,000
The Loan Act, 1984(2)	7,062,000	7,062,000
The Loan Act, 1987	12,500,000	1,877,000
The Loan Act, 1988	16,000,000	—
	$43,962,000	$17,339,000

Included in the amount used to purchase shares is $9,939,000 for 993,900 shares issued to the Government of the Province of Manitoba during 1988.

6. Trout Lake Mine

The Trout Lake mine is an unincorporated joint venture which is limited to the development and operation of the mine. The joint venturers take the ore produced in proportion to their interests and are individually responsible for processing of the ore and sale of the concentrates.

6. *Trout Lake Mine continued*

The Company has a 27% interest in the joint venture. Hudson Bay Mining and Smelting Co., Limited has 44%, Granges Exploration Ltd. 19.833% and Outokumpu Mines Ltd. 9.167%.

These financial statements reflect the Company's revenues and expenditures for its 27% interest in the joint venture operations and the additional activities outside the joint venture, including arrangements for the processing of the ore, sale of concentrates and monitoring.

7. *Settlements and Accounts Receivable*

	1988	1987
Settlements receivable on sales of Trout Lake mine concentrates [Note 3(b)]	$2,548,109	$2,818,145
Accounts receivable	31,848	106,559
	$2,579,957	$2,924,704

8. *Term Loan*

In 1988, the Company entered into a joint venture agreement with Hudson Bay Mining and Smelting Co., Limited to develop the Callinan mine. Effective October 31, 1988 the Company sold its rights under the joint venture agreement to Hudson Bay Mining and Smelting Co., Limited subject to a satisfactory advance tax ruling from Revenue Canada. In anticipation of a satisfactory tax ruling, these financial statements reflect the funds contributed by the Company as an interest bearing loan which is repayable in four installments in 1990. In the event an unsatisfactory tax ruling is received, the loan will revert to a fixed asset pending renegotiation of the agreement.

9. *Investment*

During the year the Company purchased the shares of Tantalum Mining Corporation of Canada Limited from the Government of the Province of Manitoba and the shareholder's loan from Manitoba Development Corporation.

The investment at December 31, 1988 comprised the following:

250,000 Class C shares representing 25% of the issued and outstanding shares and 25% of a 5% income debenture	$ 722,792
Shareholder's loan, including accrued interest	1,117,362
	$1,840,154

MANITOBA MINERAL RESOURCES LTD.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 1988

10. Fixed Assets, Net

	Cost	Accumulated Depreciation and Amortization	1988 Net Book Value	1987 Net Book Value
Trout Lake mine				
Development	$ 809,936	$ 511,942	$ 297,994	$ 360,671
Equipment	1,736,948	349,575	1,387,373	1,204,605
Construction in progress	3,114,481	—	3,114,481	1,791,885
	5,661,365	861,517	4,799,848	3,357,161
Field equipment	144,270	126,636	17,634	27,779
Office equipment	76,272	48,234	28,038	20,357
Vehicles	22,907	22,907	—	1,321
	$5,904,814	$1,059,294	$4,845,520	$3,406,618

11. Exploration Expenses-Joint Ventures

	1988	1987
Joint ventures operated by Manitoba Mineral Resources Ltd.	$1,911,796	$2,446,573
Deduct: recoveries from joint venturers	966,036	1,188,847
	945,760	1,257,726
Joint ventures operated by others	2,808,902	788,229
	$3,754,662	$2,045,955

12. Grants

The condition attached to working capital grants received from the inception of Manitoba Mineral Resources Ltd. to 1982 has been rescinded by the Government of the Province of Manitoba. These grants were to have been repayable if, as and when exploration projects became profitable ventures. The Company is no longer contingently liable for these grants.

13. Employee Pension Plan

Under the terms of the Company's pension plan, employee contributions are matched by the Company and these amounts are contributed to a defined contribution pension plan. As a result, there are no unfunded plan liabilities and no outstanding corporate obligations.

14. Comparative Figures

Comparative figures for the year ended December 31, 1987 have been restated to conform with the presentation adopted for the current year.